



PLANNING AND DEVELOPMENT DEPARTMENT
HOUSING AND COMMUNITY DEVELOPMENT DIVISION

CALHOME MORTGAGE ASSISTANCE PROGRAM GUIDELINES

PROGRAM OVERVIEW

The CalHome Mortgage Assistance Program is a program funded by the California Department of Housing and Community Development to help low-income families purchase their first home by providing mortgage assistance to ensure affordable monthly housing costs. This program will bridge the gap between the purchase price with closing costs and the amount of the buyer's first mortgage loan (the maximum loan for which the buyer qualifies) and the required three percent contribution. The gap financing may be used for non recurring loan closing costs and mortgage assistance. The loan will be up to \$50,000 and is provided at zero percent (0%) interest and will be secured with a Deed of Trust that will be subordinate to the primary loan (second lien position). The maximum sales price and/or value cannot exceed 95% of the area median purchase price using the pre-Economic Stimulus Act figures published by FHA for its 203(b) program. This financing will be a loan that will be due upon sale, transfer of the property, loan maturity date, or when the home is no longer the buyer's principal residence. A federal HOME funded loan in the amount of up to \$5,000 will be used for closing costs (specifically the recurring loan closing costs). This loan also will be secured with a Deed of Trust that will record subordinate to the CalHome Mortgage Assistance Program loan (third lien position).

BORROWER ELIGIBILITY

Income

Income eligibility is based on gross anticipated income of all household members eighteen years old or older who will be living in the home. In cases where there will be multiple family members on title, income from all sources must be verified for each family member. This gross anticipated income may not exceed 80% of the area median income adjusted for family size as shown in the table on Page 2. Prior year's tax return does not establish anticipated income; current pay stubs should be used. The income verification may not be more than six months old at the time of loan funding. It should be assumed that the current circumstances will continue for the next 12 months even when it is not clear that the type of income received currently will continue in the coming year, unless there is verifiable evidence to the contrary. When collecting income verification documentation, also consider any known or upcoming changes. Gross income from all sources must be used. This includes:

- ▶ Overtime pay, commissions, fees, tips and bonuses, and other compensation for personal services (before any payroll deductions).
- ▶ If an upcoming raise is shown on the Verification of Employment, it must be calculated as current income.

- ▶ Wages from a second job, even if the borrower has not been on the job long enough for the FHA underwriter to use those wages.
- ▶ The regular amount of periodic payments received from Social Security, Supplemental Security Income (SSI), annuities, insurance policies, retirement funds, pensions, disability or death benefits, and other similar types of periodic receipts. These amounts should not be grossed up.
- ▶ Payments in lieu of earnings, such as unemployment and disability compensation, worker's compensation and severance pay.
- ▶ Periodic and determinable allowances, such as alimony and child support payments, and regular contributions or gifts received from persons not residing in the dwelling.
- ▶ Interest, dividends, and other net income of any kind from personal property. If the household net assets are greater than \$5,000, gross income includes the greater of:
 - 1) the actual income, if any, derived from all the assets; or
 - 2) 2.5% of the value of all such assets.

Income qualification for self-employed persons is based on prior year income tax returns. Net income plus depreciation from the operation of a business or profession will be used.

Income averaging is allowed **only** when the borrowers are seasonal employees with fluctuating incomes.

INCOME ELIGIBILITY	
A	B
HOUSEHOLD SIZE	MAXIMUM ALLOWABLE <u>GROSS MONTHLY</u> INCOME (For Household Size Listed in Column A)
1	\$2,629
2	\$3,004
3	\$3,379
4	\$3,754
5	\$4,058
6	\$4,358
7	\$4,658
8 and Over	\$4,958
Date of Last Revision: <u>June 17, 2010</u>	

Household Size

For qualification purposes, "household size" shall be determined in the following manner:

- ▶ Immediate household members and dependents shall be verified from the prior year Federal Income Tax Return. The only items that can change the number shown on the tax return is the birth of a child in the current year or official documentation from a court that shows guardianship of a child was obtained in the current year. However, if a dependent that is listed on the most recent tax return is 18 years of age or older, they must be currently enrolled in a trade school, community college or college full time (12 units or more) to be counted as a dependent. A class schedule must be provided as documentation for enrollment in school.
- ▶ When the borrower's spouse is not shown on the tax return (i. e., borrower filed head of household), the spouse's tax return or affidavit must be included even if the borrower is taking title as a sole and separate borrower. The income, if any, must be included and the spouse will be included as part of the household.
- ▶ Families who do not file Federal Income Tax Returns must verify dependent support through child support documents, Temporary Aid for Needy Families (TANF) eligibility documents, Social Security eligibility letters, birth certificates, or other verifiable documentation.
- ▶ Immediate household members or other persons, who cannot provide proof of support, shall not be included in the family size for qualifying purposes.
- ▶ Do not count the following household members when determining family size: 1) foster children; 2) unborn children; or 3) children being pursued for legal custody who are not currently living with the household.

First-Time Home Buyer

The borrower must be a first-time home buyer which is defined as not having owned a home in the last three years. However, if the borrower has had any previous type of home buyer assistance from the City of Fresno, the borrower is not eligible for this program even if they have signed off their interest in the property. For example, if the borrower was a co-borrower for someone else and during that process obtained a Downpayment Assistance Program (DAP) loan or a Lower Income Home buyer Program (LIHP) loan in their name, they would not be eligible for this program. Home buying programs through the City of Fresno are a once in a lifetime opportunity whether as a borrower or a co-borrower.

Co-Borrowers

Non-occupying co-borrowers or co-owners will not be allowed for the CalHome Mortgage Assistance Program.

Residency in the County of Fresno

The borrower must have lived or worked in the County of Fresno for the past six months.

Home Purchase Loan

The borrower must be prequalified for a home purchase mortgage loan from a participating lender. The amount of the base loan shall be the maximum loan for which the buyer qualifies.

Three Percent Contribution

The City requires that the borrower provide a three percent (3%) cash contribution toward the purchase of the home. The three percent contribution can be a gift if the donor is a relative of the borrower. A signed gift letter must be included before submission of the package.

Home Buyer's Counseling Class

The borrower(s) must attend a **city-approved** home buyer education training and provide certification of completion before the submission of the package. Home buyer education curriculum shall be pre-approved by the California State Department of Housing and Community Development and at a minimum, shall include the following topics:

- ▶ preparing for homeownership;
- ▶ available financing and credit analysis;
- ▶ loan closing and home buyer responsibilities; and
- ▶ home maintenance and loan servicing.

At the current time, the Housing Authorities of the City of Fresno is the city-approved provider. Please call (559) 443-8418 for schedule and registration information.

PROPERTY ELIGIBILITY

The home must:

1. Have a maximum sales price and/or value that cannot exceed the pre-Economic Stimulus Act Single Family Mortgage Limits under Section 203(b) as published by the U.S. Department of Housing and Urban Development (HUD); and
2. Be the applicant's principal place of residence; and
3. Be a single family residence or condominium and cannot have mother-in-law set-ups, guest quarters, or any form of unit which may be used for rental purposes. Any attached room that cannot be accessed from inside the home is considered a separate unit and such properties are not eligible for this program; and
4. Be located within the city limits of Fresno; county islands are not eligible for assistance; and
5. Meet minimum housing quality standards. This requirement may be met in various ways, including FHA appraisal/inspection; Fannie Mae housing appraisal/inspection; or other City approved certification. This must include a statement from the appraiser regarding "chipping, peeling paint." They must state on an addendum whether there "is" or "is not" chipping, peeling paint on the interior or exterior of the home. If there is "chipping, peeling paint" noted, the areas must be corrected before the property inspection by City staff; and
6. Have a property inspection performed by City staff before a release of funds; and

7. Be owner occupied (by the seller), rented by the proposed borrower(s) or vacant at the time the CalHome Program package is submitted to the City for review.

ELIGIBLE COSTS

The CalHome Mortgage Assistance Program may be used for mortgage assistance up to \$50,000. Recurring loan closing costs and the borrower's outstanding debt, liens or judgements are not considered an eligible cost.

UNDERWRITING REQUIREMENTS

- ▶ Up to \$50,000 available for mortgage assistance and non recurring loan closing costs. The mortgage assistance is the difference between the purchase price with closing costs and the maximum first lien mortgage loan and buyer's contribution. The CalHome Mortgage Assistance Program loan cannot be used for recurring loan closing costs or to payoff all or any portion of a borrower's consumer debt, liens or judgements.
- ▶ Debt-to-income ratios cannot exceed 35/43 with two exceptions. The top or front-end ratio is the ratio between monthly household income and monthly housing cost, including the first mortgage principal, interest, taxes, and insurance. The bottom or back-end ratio is the ratio between monthly household income and monthly housing costs plus all payments on long-term installment debt. The two exceptions when the monthly housing cost (top ratio) can exceed 35%, but not be more than 38%, are:
 1. The borrower has demonstrated over a minimum 12 month period the ability to pay housing costs that are equal to or greater than the housing costs for the property to be purchased.
 2. The borrower's monthly housing costs will not increase more than five percent.
- ▶ The primary loan must be for the maximum amount that the buyer qualifies for and includes the following:
 1. The monthly housing cost (top ratio) must be at least 30% of the borrower's monthly household income however, it cannot exceed 35% unless one of the above exceptions applies and the total debt ratio cannot exceed 43%.
 2. The amount of the City's assistance cannot exceed the primary loan.
- ▶ Credit worthiness of the borrower(s) shall indicate the ability to repay all debts and include:
 1. No past due or any type of collection accounts at the time the CalHome Mortgage Assistance Program package is submitted to the City for review.
 2. No unpaid liens or judgements at the time the CalHome Mortgage Assistance Program loan is recorded.
 3. No bankruptcies that have not been discharged at least three years prior to the application for financing under the CalHome Mortgage Assistance Program.

- ▶ Fixed rate mortgages with the same monthly payment amount for the full term of the loan are allowed; adjustable rate mortgages (ARM's) or graduated payment loans (GPM's) are not allowed.
- ▶ Full documentation loans only; either FHA or Fannie Mae (no sub-prime loans). No temporary buy downs, negative amortization, principal increases, balloon payments or deferred interest loan provisions. A permanent loan buy down is permitted as long as it does not cost more than 1% of the loan amount.
- ▶ The City of Fresno will record a Deed of Trust in 3rd position in the amount of up to \$5,000 which will be used to cover a portion of the closing costs, specifically the recurring loan closing costs, prepaids and discount points. If the total closing costs, prepaids and discount points are less than \$5,000, only the actual amount will be funded. The source of funds will be federal Home Investment Partnerships (HOME) Program.
- ▶ Cash out of escrow to the borrowers is limited to the amount deposited into escrow by the borrowers and not needed for any lender-required minimum down payment
- ▶ An ALTA Lenders Policy must be obtained in the amount of the CalHome Mortgage Assistance Program loan at close of escrow.
- ▶ Borrowers must maintain fire insurance (and flood insurance where applicable) on the property in an amount at least equal to the replacement value of the improvements.
- ▶ The City of Fresno must be named as additional loss payee on the fire insurance policy.

FIRST TRUST DEED LOAN (PRIMARY LOAN)

- ▶ The term of the primary loan shall be for at least 30 years.
- ▶ The interest rate shall be market rate or below market rate.
- ▶ Fixed rate mortgages with the same monthly payment amount for the full term of the loan are allowed; adjustable rate mortgages (ARM's) or graduated payment loans (GPM's) are not allowed.
- ▶ Full documentation loans only; either FHA or Fannie Mae (no sub-prime loans). No temporary buy downs, negative amortization, principal increases, balloon payments or deferred interest loan provisions. A permanent loan buy down is permitted as long as it does not cost more than 1% of the loan amount.
- ▶ First trust deed lenders are required to collect and manage an impound account for payment of taxes, assessments and property insurance for the term of the first mortgage.

LOAN-TO-VALUE LIMITS

The loan-to-value ratio for a CalHome Mortgage Assistance Program loan, when combined with all other indebtedness to be secured by the property, shall not exceed one hundred (100) percent of the sales price plus a maximum of up to five (5) percent of the sales price to cover actual closing costs.

LOAN TERMS OF THE CALHOME MORTGAGE ASSISTANCE PROGRAM LOAN

- ▶ The CalHome Mortgage Assistance Program loan will be secured with a Deed of Trust in the amount of up to \$50,000 and will be subordinate to the primary mortgage loan (second lien position).
- ▶ No monthly payments.
- ▶ The loan will be a balloon payment due in 30 years or repayable in full upon sale, transfer of title, or when the property ceases to be owner-occupied. Transfers of interest that do not require repayment of the CalHome Program loan are transfers to a joint tenant with certain restrictions. However, if the primary loan is refinanced and the costs of that transaction or “cash out” are included in the new loan, the City’s loan must be paid off.
- ▶ Zero (0%) interest.
- ▶ No prepayment penalties.
- ▶ No CalHome loan fees.
- ▶ Loans are not assumable.
- ▶ Refinance/subordinations of the first lien mortgage will be allowed for the current principal balance of the primary loan at the time of the requested subordination. The new loan shall not contain any balloon payments or call dates. It must be a fully amortized loan. No cash out (this includes paying off installment or credit accounts) or costs of the refinance transaction will be allowed in the new loan.

LOAN TERMS OF THE FINANCING SUBORDINATE TO THE CALHOME MORTGAGE ASSISTANCE PROGRAM LOAN

- ▶ The City of Fresno will record a Deed of Trust in 3rd position, subordinate to the CalHome Mortgage Assistance Program loan, in the amount of up to \$5,000 to cover a portion of the closing costs, specifically the recurring loan closing costs, prepaids and discount points. If the total closing costs, prepaids and discount points are less than \$5,000, only the actual amount will be funded. The source of funds will be federal Home Investment Partnerships (HOME) Program.
- ▶ The City of Fresno's loan cannot be used to payoff all or any portion of a borrower's consumer debt, liens or judgements.
- ▶ No monthly payments.
- ▶ The Loan will be due and payable in full upon sale, transfer of title, or when the property ceases to be owner-occupied. However, if the primary loan is refinanced and the costs of that transaction or “cash out” are included in the new loan, the City’s loan must be paid off.
- ▶ Zero (0%) interest.
- ▶ No prepayment penalties.

- ▶ No City of Fresno loan fees.
- ▶ Loans are not assumable.
- ▶ A deed restriction will be recorded with the HOME funded Deed of Trust. It will discuss the terms of the affordability period which is fifteen years. If the home is sold within the affordability period, the City will apply the recapture option. For purposes of this deed restriction, year one shall be the 12-month period following execution of the Deed of Trust, with each succeeding year beginning on the anniversary of the document execution and ending 12 months later. There will be no partial years.
- ▶ Refinance/subordinations of the first lien mortgage will be allowed for the current principal balance of the primary loan at the time of the requested subordination. The new loan shall not contain any balloon payments or call dates; it must be a fully amortized loan. No cash out (this includes paying off installment or credit accounts) or costs of the refinance transaction will be allowed in the new loan.

MONITORING

The City of Fresno will perform annual monitoring procedures on all loans provided. The monitoring may consist of a letter that will be sent out once a year asking participants to verify that the home is still their principal place of residence, or other means of verification as identified by the City. Monitoring will continue for a period of thirty (30) years from the date of the close of escrow or until the home is no longer the participant's principal place of residence. Verification of Fire insurance (and Flood insurance where applicable) and payment of property taxes is required on all loans and will be included as part of the annual monitoring. Homeowners will be required to assist and facilitate annual monitoring procedures as administered by the City.

APPEALS

If the borrower's application is turned down by City staff, the applicant may appeal, in writing, within ten (10) days after the occurrence. The appeal must clearly state the reasons for the appeal. The appeal will be filed with the Housing and Community Development Division Manager, who will review the appeal and respond within 15 days. If the appellant is not satisfied with that response, the appeal may be presented to the Planning and Development Department Director within thirty (30) days of the Division Manager's response. The Director will attempt to resolve the grievance within fifteen (15) days. The ruling of the Director will be final.

AMENDMENTS TO PROGRAM RULES

The Fresno City Manager's office, and his/her designee(s), may change program requirements from time to time to meet program objectives. All changes will be required to meet CalHome and/or HOME Program guidelines.